

PHILIPPINES ECONOMIC WRAP-UP

MAY 04 - 11, 2001

Summary

Financial markets were quiet this week as the country turns its attention to national elections to be held Monday, May 14. The latest statistics show that April inflation remained steady at 6.7%, further encouraging government planners predicting a 6%-7% full-year inflation rate for 2001. The government continues to keep the fiscal deficit in check, but only at the cost of deep reductions in needed spending. We also provide a short update on the status of Philippine National Bank and an effort by the central bank to keep a tight grip on banks' bad assets.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site. The next edition of the Outlook will be released in early June.

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Market and Policy Developments

FOREX REPORT

In the run-up to national elections to be held May 14, banks and foreign currency traders were hesitant to take significant positions in the Philippine peso, and so trading volumes this week were lower than those seen in recent weeks. The unsettled political scene saw some volatility in the peso's value against the U.S. dollar, but overall the currency saw only a slight depreciation. From its May 4 close of P50.38/US\$, the peso weakened to close on May 11 at P50.30/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
APR 02	49.717	49.770	104.0
03	49.743	49.730	140.0
04	49.880	50.160	137.9
05	50.182	50.175	139.9
06	50.372	50.200	160.6
APR 09	Markets Closed		
10	50.017	49.900	78.5
11	49.880	49.930	69.5
12	Markets Closed		
13	Markets Closed		
APR 16	50.086	50.200	99.3
17	50.238	50.300	105.3
18	50.173	50.110	162.0
19	50.054	50.060	136.5
20	50.218	50.280	141.1
APR 23	50.441	50.480	145.5
24	50.437	50.415	105.0
25	50.546	50.550	116.2
26	50.764	51.000	132.4
27	51.218	50.870	152.2

APR 30	51.339	51.450	170.9
MAY 01	Markets Closed		
02	51.001	50.730	167.5
03	50.459	50.280	149.2
04	50.349	50.380	81.3
MAY 07	50.504	50.440	59.0
08	50.477	50.460	76.5
09	50.482	50.650	120.5
10	50.624	50.590	137.0
11	50.487	50.300	117.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

At the regularly scheduled T-bill auction on Monday, May 7, all bids for the government's short-term paper were rejected. National Treasurer Sergio Edeza said that banks' efforts to push rates was "unwarranted" given expectations of a U.S. rate cut in the near future. (In a separate statement on Thursday, the policy-making Monetary Board of the Philippine central bank said it would likely cut its policy rates in response to an U.S. rate cut next week. Edeza asserted that the government was in a position to reject bids this week and wait for lower bids at the next auction. But Edeza added that some of the pressure on rates could come from weaker liquidity: the Treasury did issue P15.6 billion worth of 4-year bonds last week; and the auction was undersubscribed with only P3.29 billion worth of bids received for the P4 billion of paper slated for sale. Due to the national elections on May 14, the next regular auction will be held on Tuesday, May 15.

In its first formal auction of two-year T-bonds since the auctions were suspended in March, the Treasury Bureau sold a full complement of P4 billion worth of the bonds at an interest rate of 13.25%, against recorded bids of P7.219 billion. The Treasury further announced that it would sell P12 billion worth of T-bonds in June and P10

billion worth of T-bonds in July through its over-the-counter facility (rather than regular auctions).

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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APR 02	9.611	10.479	11.026
APR 10	9.959	11.005	11.638
APR 16	10.027	no sales	no sales
APR 23	9.855	10.959	11.368
APR 30	10.102	11.324	11.725
MAY 08	no sales	no sales	no sales

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
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MAR 28	13.0484	10.75 - 14.50
APR 05	13.1808	10.75 - 14.611
APR 19	13.4611	11.00 - 15.027
APR 23	13.3529	10.75 - 14.855
MAY 03	13.4683	11.25 - 15.102
MAY 10	13.4861	11.25 - 15.012

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Activity on the Philippine Stock Exchange this week was muted, with investors broadly adopting a 'wait-and-see' attitude ahead of national elections scheduled for May 14. Trading volume on Friday surged and the market jumped some 39 points as investors presumably laid their bets on a positive election result. From its May 4 close of 1442.46, the 33-share Philippine Stock Index (PHISIX) moved to close at 1484.83 on May 11.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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APR 02	1439.05	326
03	1452.26	292
04	1452.15	317
05	1460.67	588
06	1471.13	713
APR 09	Markets Closed	
10	1459.49	479
11	1445.26	445
12	Markets Closed	
13	Markets Closed	
APR 16	1453.84	236
17	1435.68	271
18	1425.97	507
19	1428.87	614
20	1428.54	411
APR 23	1437.16	259
24	1444.00	304
25	1462.18	431
26	1437.50	302
27	1420.36	398
APR 30	1378.84	446
MAY 01	Markets Closed	
02	1435.88	765
03	1430.39	376
04	1442.46	405
MAY 07	1431.91	466
08	1427.28	567
09	1441.77	352
10	1443.85	643
11	1484.83	1134

Source: Philippine Stock Exchange

APRIL YEAR-ON-YEAR INFLATION STEADY AT 6.7%

The government's National Statistics Office (NSO) reported that April 2001's consumer price index (CPI) increased by 0.3% month-on-month, accelerating from March's 0.1% increase. That acceleration reflected a 0.1% increase in the heavily-weighted food index after the 0.5% and 0.4% month-on-month declines registered in February and March, respectively. A somewhat faster increase for the services index (0.4% in April versus 0.3% in March) also contributed. The uptick in food prices partly reflected seasonal factors (such as the end of the harvest season for a number of major crops and stronger demand for fruits, vegetables and fish during May's lenten season). The "mad cow" scare also caused supply bottlenecks for beef, while exerting upward pressure on other non-beef meat items. Other major non-food indices registered either the same or slower month-on-month price increases relative to March: clothing (steady at 0.2%); housing and repairs (0.3% from 0.8%); fuel, light and water (0.7% from 1.1%); and miscellaneous items (steady at 0.3%).

In year-on-year terms, the consumer price index rose by 6.7%, steady at that rate for the third month in a row. The year-on-year inflation rate for food commodities accelerated (to 4.2% from 4.0%) as did the year-on-year overall increase for miscellaneous items (to 7.6% from 7.4%). These were offset by lower year-on-year rates posted by housing and repairs (6.8% from 7.0%); fuel, light and water (13.8% from 14.3%); and the miscellaneous index (7.4% from 7.1%). The clothing and services indices maintained their respective March rates of 3.8% and 13.9%.

Year-on-year inflation averaged 6.8% during the first four months of 2001. The government's goal for the full-year is for average year-on-year inflation in the 6% to 7% range. Government officials expect the year-on-year rate to slow in the second half (and especially towards the fourth quarter) -- reflecting 2000's relatively

higher second-semester base and assuming that improved prospects for more stable world oil prices hold.

 PHILIPPINE CONSUMER PRICE INFLATION
 (IN %)

	Year-on-Year -----	Month-on-Month -----
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Apr	3.2	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3
Average		
Jan-Apr	6.8	

 Source: National Statistics Office

FISCAL UPDATE

"Indicative" numbers suggest that the national government may find it increasingly difficult in coming months to "under-spend" at levels required to make up for revenue shortfalls. The four-month deficit was estimated at P38.7 billion, just P440 million shy of that month's programmed ceiling. Revenues were short by about P8 billion and the government held back P7.5 billion in disbursements. (Note: These estimates are subject to

change, pending the release of final numbers later next week.) First-quarter estimates showed revenues off by P4.7 billion and disbursements below the January-March programmed level by a wider margin (P15.3 billion).

Fiscal planners are determined to keep within the P145-billion deficit ceiling programmed for 2001. However, the government is already operating under a tight spending plan which, as it is, leaves practically no room for increasing capital and maintenance and operating outlays after disbursements for "non-discretionary" obligations (i.e., personnel services, mandated transfers to local government units, and debt servicing). The government's chronic fiscal dilemma emphasizes the urgency of more aggressive revenue mobilization efforts for a responsible deficit-reduction program and sustainable longer-term growth.

BANKING NOTES

Reverse Privatization for PNB?: The government -- which currently holds a 16% stake in Philippine National Bank (PNB) -- is studying the possibility of a "reverse privatization" scheme should plans for a June joint sale with majority stakeholder Lucio Tan fall through. Under that arrangement, the P15 billion in emergency loans extended by the Bangko Sentral ng Pilipinas to the bank last October would be swapped for government Treasury bills and bonds. The loans assumed by the state would then be converted into equity (BSP being legally constrained from taking equity positions). PNB owes the Philippine Deposit Insurance Corp. another P10 billion in emergency loans which, under the plan, would be swapped with outstanding loans owed to PNB by government agencies/corporations. The rehabilitation of PNB would follow, involving the infusion of fresh capital and the appointment of a new senior management team while awaiting improved conditions for a sale to a strategic buyer (considering the currently depressed market situation and PNB's unfavorable financial condition).

BSP Eyes Stricter Rules for Foreclosed Assets: The Bangko Sentral is studying measures to discourage banks from protracted holding of foreclosed properties and other assets. Current regulations give banks a five-year

grace period before requiring that they set aside cash reserves (currently 10% of book value). Among possible measures being considered are eliminating the five-year grace period, raising provisioning requirements every additional year the assets are held, and limiting individual banks' holdings of foreclosed assets within the industry average. The commercial banking system's portfolio of foreclosed properties stood at over P130 billion (about \$2.6 billion) as of end-February (more than ten times the level before the Asian crisis and equivalent to 4.4% of the sector's total assets). Although banks may have to absorb short-term losses because of weak property markets, BSP officials view the planned regulatory changes as beneficial for the longer-term profitability and stability of the banking system.